

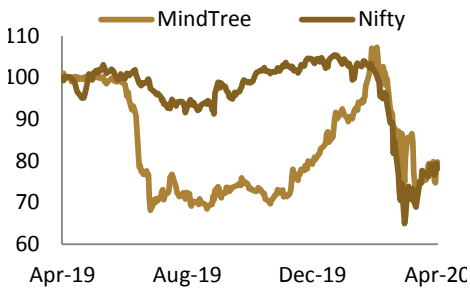
Market statistics

Current stock price (₹)	781
Shares O/S (cr.)	16.5
Mcap (₹ cr)	12,848
52W H/L (₹)	1062/653
Bloomberg	MTCL IN

Shareholding pattern

Promoters	74.11
Domestic Institution	5.78
Foreign Institution	11.86
Non-institution	8.25
of which more than 1%	
<i>S Janakiraman</i>	1.24

Mindtree vs Nifty



Capital efficiency & valuations

Particulars	FY20	FY21E	FY22E
RoE (%)	20.1	22.8	22.6
EPS (₹)	38.3	47.6	55.1
CEPS (₹)	55.1	64.7	73.6
P/E (x)	21.9	16.4	14.2
P/BV (x)	4.4	3.5	3.0
EV/EBITDA (x)	11.0	8.6	7.2
Income growth (%)	10.6	2.3	8.8
EBITDA growth (%)	4.3	21.8	11.4
PAT growth (%)	(13.7)	20.5	16.0

ANALYST
Naushil Shah
 +91-22 4224 5125
 naushil.shah@trustgroup.in

Mindtree’s Q4FY20 performance was better-than expected on revenue front and margin. Revenue increased 1.2% QoQ to US\$278.4mn. Margin was higher by 252bps QoQ at 18.1% primarily on account of higher operational efficiencies, fixed-price, and INR depreciation. TCV won in Q4 was US\$393mn (US\$207mn in Q3FY20, US\$242mn in Q4FY19) with digital comprising US\$190mn - which again was on the healthy side. Lower-than-expected OI dented PBT. Mindtree’s comments regarding future business opportunities indicated a sustainable pick-up in revenue trajectory in the medium term and margin recovery in the post Covid-19 era. Mindtree has done well in the past three quarters under a new leadership but faces the risk of exposure to challenged verticals and has to carefully manage growth-margin trade-off. We downgrade to Hold.

Quarterly details. Mindtree posted revenue at US\$278.4mn, +1.9% QoQ in cc terms led by (1) Continued strong growth in T1 account (24.8% of revenue) at +8.6% QoQ, (2) Stable T2-10 accounts (22.6% of revenue) posting +1.6% QoQ, and (3) Decline in Non-T10 impacted by the ongoing tail account rationalisation (active count down from 343 to 307 over the past 2 quarters). Revenue growth was volume-led (4.1% QoQ) as the company navigated 4Q with no supply-related dent. T1 account growth outlook remains positive supported by services diversification and increased traction in collaboration tools & virtualisation. Free cash flow generation was strong. FCF increased 52.9% to Rs7 bn and was 111.4% of net profits. Growth in digital moderated to 10.6% from 19.1% in Jun-19. Revenue growth in Interactive practice at 5.3% YoY lags behind company growth.

Highest-ever deal wins: Mindtree reported it’s highest-ever deal win with TCV at US\$393mn (US\$1.2bn in FY20, +15% YoY), supported by strategic annuity 5-year deal with Realogy. Other deal wins from new logos were in Insurance (North America), Travel tech and Manufacturing verticals. Mindtree did not see any “significant impact” in business due to Covid-19 in Q4 although FY21 to see softness in demand due to the Covid-19 pandemic.

Operational improvement continues: EBIT% stood at 14.8%. Operational improvement was led by better gross margin (+71bps QoQ) supported by INR depreciation and SG&A improvement supported by lower travel cost (+53bps). Operational improvement is sustainable, following strong recovery (+480bps in 3 quarters) with continuity in tail rationalisation, optimal sub-contracting and offshore/utilisation levers.

Strong outlook for Hi-tech & Media vertical: Hi-tech & Media vertical (43.1% of revenue) led the growth in 4Q at 5% QoQ. Travel & Hospitality vertical (16.2% of revenue) declined 1.3% QoQ. Hi-tech & Media vertical and CPG segment within Retail, CPG & Manufacturing vertical are expected to outperform in the near to medium-term.

Valuation & Outlook: We downgrade our recommendation on the stock to Hold account of high exposure to travel, transportation and hospitality vertical which has been highly impacted by the Covid-19 pandemic. Clients in the vertical are conserving cash; furloughing employees and cutting back on all discretionary spends. Mindtree has done well to navigate several challenges post ownership transition. High top client concentration, moderating growth in digital services and aggressive cost rationalization are a few areas of concern. Against the backdrop of these risks, we do not find comfort in current valuation of 14.2X FY22E earnings.

**Exhibit 1: Quarterly details (IND-AS)**

₹ mn	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	261.9	275.2	278.4	1.2	6.3	Volumes increased 4.1%, pricing decreased ~2.9%.
Revenues	18,394	19,653	20,505	4.3	11.5	
- Operating costs	15,591	16,590	16,793	1.2	7.7	
EBITDA	2,803	3,063	3,712	21.2	32.4	
EBITDA margin (%)	15.2	15.6	18.1	252bps	286bps	Margin was helped by better operational efficiencies and INR depreciation
- Interest expense	-	133	128	(3.8)	-	
- Depreciation	428	699	679	(2.9)	58.6	
+ Other income, net (incl forex)	290	348	(92)	(126.4)	(131.7)	
PBT	2,665	2,579	2,813	9.1	5.6	
- Taxes	681	609	551	(9.5)	(19.1)	
Effective tax rate (%)	25.6	23.6	19.6	(403)bps	(597)bps	Effective tax rate for FY21 to be ~26%
PAT	1,984	1,970	2,262	14.8	14.0	

Source: Company

Exhibit 2: Change in estimates

₹ mn	FY21E			FY22E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	1,205	1,088	(9.7)	1,343	1,184	(11.8)
Revenue	84,327	79,432	(5.8)	94,044	86,444	(8.1)
EBITDA margin (%)	15.8	17.0	115bps	16.2	17.4	120bps
EPS (₹)	52.5	47.6	(9.3)	63.3	55.1	(13.0)

Source: Trust Research

Geography wise Revenues: US grew 4.2% QoQ on a higher base in Q3FY20, Europe declined by 8.9%.

Exhibit 3: Geographical wise Performance

Geographical mix	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
US	71.0	72.7	73.6	73.4	73.6	73.7	73.7	74.6	76.8
Europe	21.1	20.1	18.7	18.7	18.5	17.8	17.6	17.0	15.3
India	3.2	3.1	3.3	3.6	3.7	4.1	4.2	4.0	3.9
RoW	4.7	4.1	4.4	4.3	4.2	4.4	4.5	4.4	4.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Vertical Performance: Hi-tech & Media vertical (43.1% of revenue) led the growth in 4Q at 5% QoQ. Travel & Hospitality vertical (16.2% of revenue) declined 1.3% QoQ. Hi-tech & Media vertical and CPG segment within Retail, CPG & Manufacturing vertical are expected to outperform in the near to medium-term.

Exhibit 4: Service offering segmentation

Service offerings	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Technology, Media & Services	38.0	38.9	39.3	39.4	39.6	39.4	39.8	41.5	43.1
BFSI	22.7	22.3	22.4	21.7	21.8	21.6	21.6	21.3	20.4
Retail, CPG and Manufacturing	23.5	23.1	21.7	22.3	22.2	22.2	21.7	20.6	20.3
Travel & Hospitality	15.8	15.7	16.7	16.6	16.4	16.8	16.9	16.6	16.2
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company



Human Resources: 230 employees (net) joined MTCL to take the employee base to 21,791 (a gross addition of 1,322). Utilization (excluding trainees) was up 80bps QoQ at 78.8%. Utilization (including trainees) was up 60bps QoQ at 76.5%

Exhibit 5: Employee strength at MTCL

Vertical Mix	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Software Professionals	16,595	17,837	18,214	18,713	19,017	19,681	20,001	20,348	20,817
Sales and Support	1,128	1,153	1,188	1,195	1,187	1,254	1,266	1,213	974
Total employees	17,723	18,990	19,402	19,908	20,204	20,935	21,267	21,561	21,791
Gross Addition	1,102	1,934	1,126	1,214	1,072	1,684	1,400	1,202	1,322
Net Addition	523	1,267	412	506	296	731	332	294	430
Attrition (LTM, %)	12.5	12.2	13.0	13.4	14.2	15.1	16.5	17.2	17.4

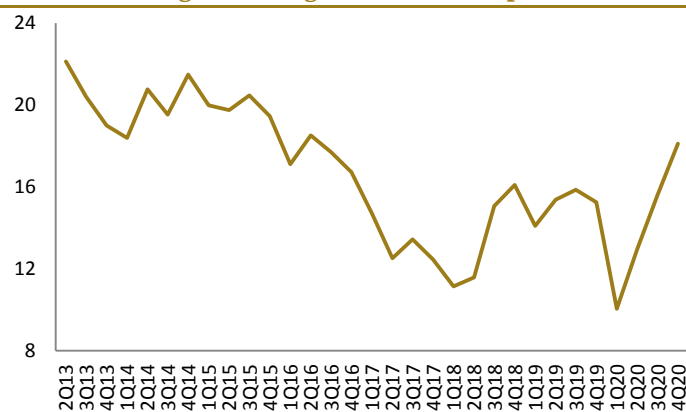
Source: Company, Trust Research

Exhibit 6: Client details

Employees	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Top client	17.8	19.4	20.2	20.0	19.8	20.1	20.6	23.1	24.8
Top 5 clients	32.0	32.3	33.8	33.8	33.2	33.6	33.2	36.1	37.9
Top 10 clients	43.7	43.5	44.8	44.1	42.9	43.0	43.1	45.6	47.4
Number Of Active Clients	338	339	341	340	349	346	343	320	307
New Client Additions	23	24	18	23	15	12	14	7	5
\$1 Mn Clients	118	117	111	116	120	122	130	134	134
\$5 Mn Clients	38	39	44	44	45	46	47	47	47
\$10 Mn Clients	17	19	21	21	23	23	21	22	23
\$25 Mn Clients	4	4	4	4	4	4	4	5	5
\$50 Mn Clients	1	1	1	1	1	1	1	1	1
\$100 Mn Clients	1	1	1	1	1	1	1	1	1

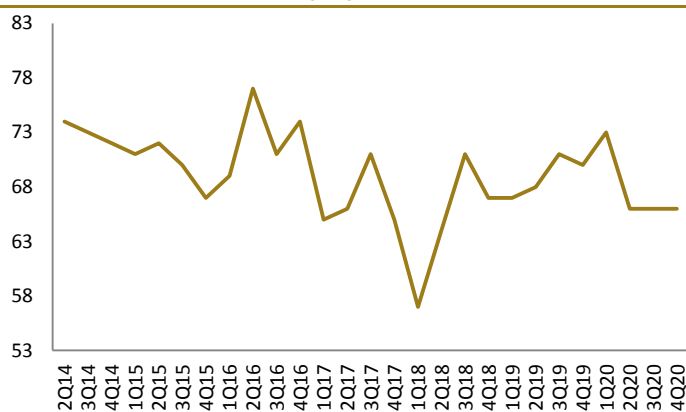
Source: Company

Exhibit 7: Margin was higher-than-our expectation



Source: Company, Trust

Exhibit 8: DSO was flat QoQ at 66



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Revenues	54,628	70,215	77,643	79,432	86,444
Op. Expenses	47,223	59,570	66,545	65,917	71,386
EBITDA	7,405	10,645	11,098	13,515	15,059
Other Income	1,902	893	673	410	710
Depreciation	1,715	1,641	2,754	2,816	3,040
EBIT	7,592	9,897	9,017	11,109	12,729
Interest	169	29	529	512	435
PBT	7,423	9,868	8,488	10,597	12,294
Tax	1,722	2,327	1,979	2,755	3,196
PAT	5,701	7,541	6,509	7,842	9,097
Ex. ordinary	-	-	(200)	-	-
Adj Pat	5,701	7,541	6,309	7,842	9,097

Key Parameters

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Per share (₹)					
EPS	34.8	45.9	38.3	47.6	55.1
CEPS	45.2	55.9	55.1	64.7	73.6
BVPS	167.2	201.3	191.8	225.1	263.2
DPS	11.0	33.0	10.0	12.0	15.0
Payout (%)	37.0	84.1	29.6	29.5	30.6
Valuation (x)					
P/E	22.3	20.6	21.9	16.4	14.2
P/BV	4.6	4.7	4.4	3.5	3.0
EV/EBITDA	15.5	13.1	11.0	8.6	7.2
Dividend Yield (%)	1.4	3.5	1.2	1.5	1.9
Return ratio (%)					
EBIDTA Margin	13.6	15.2	14.3	17.0	17.4
PAT Margin	10.4	10.7	8.4	9.9	10.5
ROAE	21.4	24.9	20.1	22.8	22.6
ROACE	26.4	31.2	27.9	32.4	31.6
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	-	-	-
Net Debt/Equity	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)
Debt/EBITDA	0.0	0.0	-	-	-
Interest Coverage	-	-	-	-	-
Current ratio	2.5	3.2	2.5	2.6	2.8
Growth Ratios (%)					
Income growth	4.3	28.5	10.6	2.3	8.8
EBITDA growth	6.5	43.8	4.3	21.8	11.4
PAT growth	36.2	32.3	(13.7)	20.5	16.0
Turnover Ratios					
F.A Turnover x	10.7	13.4	18.1	17.7	18.6
Debtors Days	64	64	65	81	89
Payable days	4	4	4	5	5

Balance Sheet (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	1,639	1,642	1,646	1,646	1,646
Reserves & Surplus	25,775	31,419	29,922	33,917	38,978
Total Shareholders Fund	27,414	33,061	31,568	35,564	40,624
Non-current liabilities	(224)	(209)	4,927	5,028	5,597
Long term borrowings	9	5	-	-	-
Deferred tax liabilities	(318)	(388)	(1,835)	(1,835)	(1,835)
Other LT liabilities & prov	85	174	6,762	6,863	7,432
Current Liabilities	9,857	8,550	13,236	14,086	15,255
Short term borrowings	3,000	-	-	-	-
Trade payables	1,710	2,131	2,587	3,251	3,520
Other cur liabilities & Prov	5,147	6,419	10,649	10,836	11,735
Total Liabilities	37,047	41,402	49,731	54,677	61,476
Assets					
Non-current Assets	12,016	13,730	17,182	17,632	18,464
Fixed assets	5,121	5,234	4,295	4,479	4,639
Non-current investments	4,597	5,932	5,536	5,536	5,536
Long-term loans & adv	751	675	457	435	474
Other non-current assets	1,547	1,889	6,894	7,182	7,816
Current assets	25,031	27,672	32,549	37,046	43,012
Current investments	7,206	6,836	6,944	7,944	8,944
Trade receivables	10,155	13,356	14,389	20,674	21,315
Cash & Bank balances	3,289	2,562	3,909	1,246	4,937
Short term loans & adv.	3,098	2,651	2,904	2,829	3,079
Other current assets	1,283	2,267	4,403	4,352	4,737
Total Assets	37,047	41,402	49,731	54,677	61,476

Cash flow Statement

Year End-March	FY18	FY19	FY20	FY21E	FY22E
PBT	7,423	9,868	8,488	10,597	12,294
Depreciation	2,021	1,571	1,307	2,816	3,040
Interest Exp	169	29	529	512	435
Non-operating & EO	(1,584)	(785)	(200)	-	-
CF before W.cap	8,029	10,683	10,124	13,925	15,769
Inc/dec in W.cap	833	2,360	(3,065)	5,475	209
Op CF after W.cap	7,196	8,323	13,189	8,451	15,560
Less Taxes	1,632	2,255	1,979	2,755	3,196
Net CF From Operations	5,564	6,068	11,210	5,696	12,363
Inc/(dec) in F.A + CWIP	1,011	1,708	1,815	3,000	3,200
(Pur)/sale of Investments	1,338	189	(288)	1,000	1,000
Others	(164)	-	(529)	(512)	(435)
CF from Invst Activities	(2,513)	(1,897)	(2,056)	(4,512)	(4,635)
Loan Raised	1,788	(3,004)	(5)	-	-
Equity Raised	(1,948)	4,446	(5,876)	(1,533)	(1,255)
Dividend	2,110	6,340	1,926	2,314	2,782
CF from Fin Activities	(2,270)	(4,898)	(7,807)	(3,847)	(4,037)
Net inc/(dec) in cash	781	(727)	1,347	(2,663)	3,691
Op. bal of cash	2,508	3,289	2,562	3,909	1,246
Cl. balance of cash	3,289	2,562	3,909	1,246	4,937

**DISCLAIMER**

This document has been prepared by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) to provide information about the company (ies) and/sector(s), if any, covered in the report. This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and TFCSP is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

Information and opinions presented in this report were obtained or derived from sources that TFCSP believes to be reliable, but TFCSP makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. TFCSP accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to TFCSP. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by TFCSP and are subject to change without notice. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Other Disclosures by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) under SEBI (Research Analysts) Regulations, 2014 with reference to the subject companies(s) covered in this report:

TFCSP is engaged in the business of Retail & Institutional Stock Broking. TFCSP is a member of the National Stock Exchange of India Limited, BSE Limited and Metropolitan Stock Exchange of India Limited.

The associate/subsidiary companies of TFCSP are engaged in the businesses of Merchant Banking, portfolio management, lending, wealth management etc.

TFCSP's activities were neither suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years.

TFCSP has not been debarred from doing business by any Stock Exchange / SEBI or any other authority.

No disciplinary action has been taken by any regulatory authority against TFCSP impacting its equity research analysis activities.

TFCSP and its associate/subsidiary companies may have managed or co-managed public offering of securities, may have received compensation for merchant banking or brokerage services, may have received any compensation for products or services other than merchant banking or brokerage services from the subject company in the past 12 months.

TFCSP and its associate/subsidiary companies have not received any compensation or other benefits from the subject company or third party in connection with the research report.

Subject Company may have been a client of TFCSP or its associate/subsidiary companies during twelve months preceding the date of distribution of the research report. TFCSP and/or its associate/subsidiary companies and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report.

TFCSP is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH000001543.

Analyst Certification: The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject company securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of TFCSP research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Name of Company
Analyst Ownership of Stock	No
Served as Director or Employee	No

Stock Ratings are defined as follows: - Recommendation Interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	15% to -15%
Sell	Less than -15%

Regional Disclosures (outside India): This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject TFCSP or its associate/subsidiary companies to registration or licensing requirements within such jurisdictions.